

ACCOUNTING

Time allowed – 2 hours

Total marks – 100

[N.B. - The figures in the margin indicate full marks. Questions must be answered in English. Examiner will take account of the quality of language and of the manner in which the answers are presented. Different parts, if any, of the same question must be answered in one place in order of sequence]

Marks

1. (a) What is the objective of financial statements? How does an organization achieve it? 4
(b) Define ‘Materiality’ as per BAS 1. 2
(c) What is meant by substance over form? 2
(d) What is accrual basis of accounting? 2
(e) Prepare journal entries for the following transactions: 10
i) Red Ltd. lost inventories that cost TK. 100,000 in a fire. The goods were insured for 75% of the cost.
ii) A business has been told by its lawyers that it is likely to have to pay TK. 10,000 damages for a product that failed. The business duly set up a provision as at December 31 2013. However, the following year, the lawyers found that the damage were more likely to be TK. 50,000.
iii) Fashion Ltd. estimates that TK. 100,000 is payable as tax on the profits earned in the year ended December 31, 2014. TK. 70,000 has already been paid as advance tax.
iv) Green Ltd. has 10,000 ordinary shares of Tk. 5 each. Now board decides to make a 1 for 5 bonus issue. This will be followed by a 1 for 2 right issue at TK. 8 each.

2. (a) Discuss the techniques for the measurement of cost of inventories with an example. 5
(b) On 1 December 2014, P & G Ltd held 300 units of finished goods in inventory. These cost TK 3,600. But soon after 12 units are damaged from these goods due to evaporation which is normally expected. During December 2014 three batches of finished goods were received into Store from the Production Department, as follows:

Date	Units received	Production cost per unit
10 December	400	Tk 12.50
20 December	400	Tk 14
25 December	300	Tk 15
As on 30 December 10 units are damaged due to handling which is normally expected but 50 units are stolen by an employee.		

Finished goods sold during December were as follows:

Date	Units sold	Selling price per unit
14 December	500	Tk 20
21 December	500	Tk 20
28 December	100	Tk 20

Determine the value of closing inventory and identify the profit from the selling inventory in December 2014 applying the principle of FIFO. Between FIFO and AVCO formula, advise the management which method should be followed if they are highly tax conscious.

10

3. (a) In a set of financial statements prepared in accordance with BAS 16, is it correct to say that the carrying amount figure in a statement of financial position cannot be greater than the market value (net realizable) of an asset as at the reporting date? Explain your reasons for your answer. 4
(b) Good Company Ltd. commenced business in January 1, 2009, it purchased land & building at a cost of TK. 100,000.

For the purpose of accounting for depreciation, following were agreed:

- Land was worth TK. 60,000 which would not be depreciated
- Building was worth TK. 60,000 which would be depreciated at straight line method to nil residual value over 30 years.

After five years of business, January 1 2014 an independent valuation was done and now business premises worth TK. 300,000 (Land: TK. 150,000 & Building: TK. 150,000) with 25 years of building’s remaining useful life.

Required:

- (i) Calculate the annual charge for depreciation for first five years of the building’s life and the statement of financial position carrying value of business premises as at the end of each of first five years. 10
(ii) What would be the impact of revaluation on financial statements. 3
(iii) What would be the excess depreciation and its accounting i.e. journal entries and reporting. 3
4. Well Ltd. has the following trial balance at December 31, 2014

	Debit TK.	Credit TK.
Cash at bank	100	
Inventory at January 1, 2014	2,400	
Administrative expenses	2,206	
Distribution cost	650	
Non-current assets at cost:		
Buildings	10,000	
Plant and Equipment	1,400	

Motor Vehicles	320	
Retained earnings		560
Suspense account		1500
Accumulated deprecation:		
Buildings		4,000
Plant and Equipment		480
Motor Vehicles		120
Accounts receivables	876	
Purchases	4,200	
Dividend paid	200	
Sales revenue		11,752
VAT payable		1,390
Accounts payables		1,050
Share premium		500
Share capital TK. 1 each		1,000
	<u>22,352</u>	<u>22,352</u>

The following additional information are relevant:

- Inventory as at December 31, 2014 was valued at TK. 1,600. While doing the inventory count, errors in the previous year's inventory count were discovered. The inventory brought forward at beginning of the year should have been TK. 2,200.
- Deprecation to be provided as follows:
 - Building at 5% straight line, charged to administrative expenses
 - Plant and equipment at 20% on the reducing balance basis, charged to cost of goods sold
 - Motor vehicles at 25% on reducing balance basis, charged to distribution cost.
- No final dividend is being proposed.
- A customer has gone bankrupt owing TK. 76. This debt is not expected to be recovered and an adjustment should be made. An allowance for receivables of 5% is to be set up.
- One thousand new ordinary shares were issued at TK. 1.50 on December 1, 2014. The proceeds have been kept in a suspense account.

Required to prepare the following:

- Profit and loss account for the year ended December 31, 2014
- Statement of changes in equity for the year ended December 31, 2014
- Statement of financial position as at December 31, 2014

All statements are to be prepared in accordance with BAS. Ignore taxation.

- On January 1, 2014, XYZ Company Ltd. acquired production equipment on credit by the amount of Tk 250,000. The following further costs were incurred in cash:

Delivery	Tk. 36,000
Installation	40,000
General administrative cost on an indirect nature	6,000
Consultants fees for advice on the installation of the equipment	5,000
Interest charges paid to supplier of equipment for deferred credit	12,000
Operating losses before commercial production	7,000

The installation and setting up period was 3 months and a further amount of Tk 42,000 was spent on cost directly related to bringing the asset to its working condition. The equipment was ready for use on 1 April 2014. But actually used from 1 May 2014 in commercial production.

The equipment has an estimated useful life of 14 years and a residual value of Tk 36,000. Estimated dismantling costs amount of Tk. 25,000 which will be paid at the time of dismantling.

Give the journal entry for recording the asset in 2014 and show the presentation in statement of financial position as on 31 December 2014 and in statement of comprehensive income for the year.

- Following are the information of Alex Gullible for the year to 31 December 2014:

	<u>Tk.</u>
Receivable, 1 January 2014	7,000
Collection from receivable	118,000
Receivable 31 December 2014	9,000
Cost of sales	70,000
Discounts allowed	1,000
Discounts received	6,000
Irrecoverable debts expenses	8,000
Debts paid in 2014 which were previously written off as irrecoverable in 2013	1500
Other expenses	29,500

From the above information you are required to prepare Income Statement of Alex Gullible.

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